

2012 Budget

CBO Confirms: GOP Budget Dismantles Medicare, Dramatically Increases Costs for Seniors

(by House Ways and Means Democrats)

WASHINGTON, DC - Results from a new Congressional Budget Office (CBO) analysis released yesterday confirm that the House Republican budget would dismantle the Medicare program and wreak havoc on the health and retirement security of America's seniors and future retirees. The Republican budget destroys Medicare for everyone under age 55, ending Medicare's historic entitlement to benefits and converting the program into a defined contribution that would offer individuals an under-funded voucher to purchase coverage in a new undefined marketplace where there is no guarantee that insurance companies will even participate.

The end result is a dramatic increase in the financial burden of health costs, with future retirees paying up to nearly three times as much for their health care than they would if current law continued.

According to the non-partisan CBO: "A typical beneficiary would spend more for health care under the proposal than under CBO's long-term scenarios for several reasons. First, private plans would cost more than traditional Medicare because of the net effect of differences in payment rates for providers, administrative costs, and utilization of health care services...Second, the government's contribution would grow more slowly than health care costs, leaving more for beneficiaries to pay." (p.23)

The Republican budget would.

Destroy Medicare for Future Retirees and Replace it with an Under-Funded Voucher:

"People who become eligible for Medicare in 2022 and subsequent years would receive a payment that was larger than \$8,000 by an amount that reflected the increase in the consumer price index for all urban consumers (CPI-U) and the age of the enrollee." (p. 8)

CPI-U fails to take into account full inflation for medical costs and is well below average per capita growth in Medicare spending. It is unrealistic to expect the growth in health costs to slow that dramatically or for the need for medical care to change that much, which can only mean major cost shifts to beneficiaries. After all, this is a deficit-driven exercise, not an effort to reform the program or protect beneficiaries. The whole point of converting the program to a defined contribution and setting an arbitrarily low growth rate is to save money. It has to be deliberately under-funded or it won't generate

savings.

Increase Medicare Beneficiary Costs By Nearly Three-Fold:

"Under the proposal, most beneficiaries who receive premium support payments would pay more for their health care than if they participated in traditional Medicare under either of CBO's long-term scenarios. CBO estimated that, in 2030, a typical 65-year-old would pay 68 percent of the benchmark under the proposal, compared with 25 percent under the extended-baseline scenario and 30 percent under the alternative fiscal scenario." (p. 21)

This is not "reform," but simply a massive middle-class cost-shift to individuals and their families. Thus, under the Republican budget proposal, beneficiaries would be forced to pay more than twice and up to nearly three times the amount than they would pay if current law were extended under two different scenarios (e.g., main difference in health world between "extended baseline" and "alternative fiscal scenario" is whether a Medicare Physician Payment Fix (doc fix) is assumed or not and what the doc fix is).

Move Medicare Beneficiaries Into Private Plans that Are Less Efficient and More Costly than Medicare:

"A private health insurance plan covering the standardized benefit would, CBO estimates, be more expensive currently than traditional Medicare. Both administrative costs (including profits) and payment rates to providers are higher for private plans than for Medicare...for a typical 65 year old in 2011, CBO estimate that average spending in traditional Medicare would be [11 percent lower] than the spending that would occur if the same package was purchased from a private insurer" (p. 21)

Historically, private plans have increased, not decreased, Medicare spending.

Drive Medicare Beneficiaries Out of Medicare by Increasing Beneficiary Costs and Discouraging Participation:

"Costs to individuals (beyond those covered by the premium support payment) would be higher under the proposal than under traditional Medicare, and some individuals would therefore choose not to purchase insurance." (p. 12)

While CBO has not quantified how many people will opt out, CBO clearly states that the total effect of the Republican budget will be to force some people out of the program. Depending on who leaves, this could raise the number of uninsured, raise costs for those who remain behind (e.g., if a disproportionate share are healthy and wealthy), etc.

Shift Costs to Medicare Beneficiaries and Lead to Rationing of Care By Making it Unaffordable:

"Under the proposal, the gradually increasing number of Medicare beneficiaries participating in the new premium support program would bear a much larger share of their health care costs than they would under the traditional program. That greater burden would require them to reduce their use of health care services, spend less on other goods and services, or save more in advance of retirement than they would under current law. At the same time, the proposal analyzed by CBO would leave in place provisions restraining payments to many providers under the traditional Medicare program." (p. 19)

While the Affordable Care Act included aggressive payment reforms that increased efficiency and quality while protecting and even improving Medicare benefits, many Republicans campaigned aggressively against these policies during the 2010 election. Ironically, the Republican budget now leaves in place all of the Medicare savings from the Affordable Care Act, eliminates a key improvement (filling the donut hole, which is addressed in another quote below), and goes much, much further by ending Medicare's entitlement and turning it into a defined contribution plan. With the voucher, CBO says people will need to seek less care, spend less on food/shelter/heating and other services, or save more to pay for the new extra costs.

Increase the Rate of Growth in Medicare Beneficiary Costs:

"Moreover, CBO projects that total health care spending for a typical beneficiary covered by the standardized benefit under the proposal would grow faster than such spending for the same beneficiary in traditional Medicare under either of CBO's long-term scenarios." (p. 21)

Again, relying on private plans to deliver benefits increases the cost of care. So under-funding the voucher and forcing people to more purchase more expensive coverage in the private market results in a double-whammy for an older, sicker population.

Remove Medicaid Protections for Vulnerable Seniors Who are Dually Eligible for Medicare and Medicaid:

"Beginning in 2022, the federal government would establish a medical savings account (MSA) for certain beneficiaries with low income. (An MSA is an account that holds deposits that can be used for medical expenses.) Eligibility for MSA payments would be determined annually by the federal government on the basis of income relative to the federal poverty thresholds. The amount of the contribution in 2022 would be \$7,800, and the annual amounts in subsequent years would grow with the CPI-U." (p. 9)

A low-income senior can completely exhaust these funds with one episode of illness. For instance, a senior suffering a stroke who enters the hospital in January and then requires a skilled nursing stay of less than two months would face cost-sharing exceeding this amount. Under this scenario, their assistance would run out before the end of February. They would be on their own to cover any additional health costs incurred for the rest of the year.

Provide No Funding for a Medicare Physician Payment Fix:

"On the basis of the specifications provided by Chairman Ryan's staff, CBO's analysis included no change in the sustainable growth rate (SGR) mechanism for payments to physicians under Medicare." (p. 7)

Republicans assert they want to fix the physician payment formula, but have never offered a solution and repeatedly voted against Democratic reform proposals in the last Congress. Once again, they have ignored the problem. Doing so not only raises questions about access in the future, but it jury-rigs the overall deficit and budget numbers by leaving hundreds of billions of dollars out of the equation.

Increase the Medicare Eligibility Age:

"Starting in 2022, the age of eligibility for Medicare would increase by two months per year until it reached 67 in 2033." (p. 7)

While CBO states they have not estimated these effects yet, this policy will lead to an increase in the uninsured for people caught in the gap and/or an increase in employer costs as older people need to stay on employer coverage for additional years, as well as other potential adverse financial and health effects.

Eliminate Health Reform's New Medicare Drug Coverage while Embracing Health Reform's Medicare Savings:

"The proposal would repeal the provisions that expanded subsidies for the "coverage gap" in Part D. Most of the other changes that PPACA and the Reconciliation Act made to the Medicare program would be retained." (p. 10)

Republicans, including Chairman Ryan, created the Part D prescription drug program in 2003. This program, which was estimated to cost more than \$400 billion at the time and is responsible for approximately \$7 trillion of the so-called "unfunded mandate" talked about by Republicans, was not paid for. One gimmick employed at that time was to eliminate coverage as needs rose, creating the so-called "donut hole." The Affordable Care Act filled this hole to guarantee senior citizens comprehensive drug coverage. The Republican budget repeals this critical

benefit.

A copy of the CBO analysis can be found [here](#).

Analysis by the House Committee on Education and the Workforce
Democrats on the Impact of Slashing Key Investments In the Areas of
Education and Workforce Development

House Budget Committee Chair Paul Ryan (R-WI) today released the House Republican budget proposal for fiscal year 2012. While we must address our nation's long-term deficits, the Republican budget priorities will harm our nation's future and our fragile economic recovery.

Below is an analysis by the House Committee on Education and the Workforce Democrats on the impact of slashing key investments in the areas of education and workforce development contained in the Republican budget proposal. These assaults on worker and student programs are in addition to the budget proposal's dramatic assault on seniors and health care.

While protecting tax cuts for the wealthy and subsidies for oil companies, the proposal would return non-defense discretionary spending to 2008 funding levels and thereby have the following impacts in FY 2012. With funding frozen under the proposal, even as demand and needs rise, the impacts will only worsen over time.

Higher Education

- * Pell Grants would be cut for all 9.4 million students eligible next year.
- * For the neediest students, Pell Grants would be cut by at least \$819 and as much as \$3,960.
- * At least 180,000 and as many as 1 million students would be kicked out of the Pell Grant program altogether.

Head Start

- * 218,000 low-income children and families would be removed from Head Start.
- * 16,000 Head Start and Early Head Start classrooms would close.
- * 55,000 teachers and related staff would lose their jobs.
- * 170,000 families trying to find jobs or stay employed would lose childcare.

Education (K-12)

- * 2,400 schools serving nearly a million low-income students would lose funding.
- * Nearly 10,000 teachers and aides could lose their jobs.

Job Training

- * Job-training programs for those out of work or attaining new skills would be dramatically cut.
- * "Career scholarships" would be created, which is similar to a past Republican proposal that would have gutted training programs in favor of a \$2000-\$3000 training account. The actual average cost of these training programs is approximately \$12,000, with approximately \$7,500 covered by the Workforce Investment Act today.

Impact of Republican Plan on Medicaid

(Democratic Analysis)

- * Republicans Plan to Gut Medicaid in the guise of a block-grant system.

-- Starting in 2013, the federal share of all Medicaid payments would be converted into block grants to be allocated to the states. The total dollar amount of the block grants would increase annually with population growth and with growth in the CPI-U.

-- Starting in 2022, Medicaid block grant payments would be reduced to exclude projected spending for acute care services or Medicare premiums and cost sharing paid by Medicaid.

- * The Republican plan would lead to cuts in health care and long-term care services to seniors.

-- CBO finds that federal funding for Medicaid would fall 35 percent by 2022 - and 49 percent by 2030 - below the levels the federal government now is projected to provide for the program.

-- The CBO report makes clear that unless states made up the difference, states may have to cut already-low payment rates to health care providers, causing doctors, hospitals, and nursing homes to withdraw from Medicaid and thereby reduce beneficiaries' access to care.

* Cuts to Medicaid would hit seniors the hardest.

-- Seniors and people with disabilities now on Medicaid would likely be at the greatest risk from these cuts. Seniors constitute just under one-quarter of Medicaid beneficiaries but account for two-thirds of all Medicaid spending because of their greater health care needs and because Medicaid is the primary funder of long-term care services and supports, including nursing home care.

-- Any cuts in long-term care services would cause increasing harm over time as the nation ages and the need for these services continues to grow.

-- States would also have to institute substantial cuts in reimbursement rates for hospitals, physicians, nursing homes, pharmacies, managed care plans, and other providers that furnish care to Medicaid beneficiaries. Many of these providers would likely respond by withdrawing from the program, leaving nowhere to go for care for beneficiaries who remain on the program.

* Medicaid costs - per capita and administrative costs - are already lower than private coverage. The problem is not with Medicaid but with overall health care costs.

General Facts On Medicaid

Biggest source of long-term care financing

* Medicaid is the primary payer for long-term care covering a range of services, including those needed by people to live independently in the community, as well as services provided in institutional settings.

* Medicaid accounts for 43 percent of total long-term care spending in the U.S.

* Aside from Medicaid beneficiaries, few people have long-term care insurance, as only 15 percent of adults have private insurance that covers this care. Yet, a majority of individuals will have at least \$25,000 in costs during their lifetime for these services.

Benefits

* Medicaid coverage of long-term care includes a range of services and supports that assist individuals with performing activities of daily living, from assistance with eating, dressing, and toileting, to assistance with managing a home and

medication management.

* Spending on Medicaid home and community based services (HCBS) has been growing.

* In 2009, spending on HCBS accounted for 43 percent (\$52.8 billion) of total Medicaid long-term care services spending, up from 13 percent in 1990.

Background on beneficiaries

* Nearly 6 million seniors receive Medicaid long-term services, including 1.5 million nursing home residents.

* Nine million seniors qualify for Medicare and Medicaid because of their low incomes. Depending on their income level, low-income seniors get help from Medicaid to pay for Medicare's premium and cost-sharing requirements as well as for services not covered by Medicare.

* Over 3 million individuals, or 7 percent of the Medicaid population, rely on Medicaid long-term care services for a range of physical and mental health care needs.

Eligibility

* Medicaid is intended to assist low-income individuals and is not available to everyone who needs long-term services. Individuals must first meet financial qualifications for Medicaid coverage of long-term services and supports, in addition to meeting need criteria.

* Elderly and disabled individuals who qualify for Medicaid must have very few assets (\$2,000 for an individual and \$3,000 for a couple, in 30 states).

* Medicaid is also the safety net for long-term care services for those who become impoverished as a result of disabling illness or injury.

-- Because few people can afford the high cost of nursing home care, 38 states allow people needing nursing home care to qualify with income up to 300 percent of SSI (\$2,022 per month in 2010).

Impact of Republican Plan on Social Security

(Democratic analysis)

* Sets Forth an Unprecedented New Fast-Track Procedure to Ram through Social Security Benefit Cuts. The budget resolution lays out a fast-track process that Budget Chairman Paul Ryan describes as "forcing" action on Social Security legislation in the House and the Senate. (Section 502(b) of the Chairman's Mark)

-- Specifies that any time the Social Security Trustees Report shows a shortfall within 75 years, the committee of jurisdiction must report Social Security legislation which will fully close the shortfall by January 30th, and the House and Senate must take up the legislation under "expedited procedures." (Section 502(b)(3) of the Chairman's Mark)

-- The fast-track for Social Security changes is unprecedented in the history of budget resolutions - the only Social Security procedural provisions in past budget resolutions were to protect the trust fund, the exact opposite of what this fast-track is intended to do.

-- The Budget Act does not allow regular fast-tracking (called budget reconciliation) for Social Security, which is why Chairman Ryan needed the special new process to trigger benefit cuts instead of just requiring the cuts directly. (Section 310(g) of the Congressional Budget Act of 1974)

* Praises Specific Benefit Cuts for Middle-Income Americans While Appearing to Rule Out Other Options.

-- The summary specifically praises two benefit cuts recommended by the co-chairs of the President's Fiscal Commission:

* Raising the retirement age, which affects all beneficiaries, and

* Cutting future Social Security benefits for everyone who currently earns more than \$27,000 a year (similar to the benefit cut proposed by President Bush in 2005 as part of his privatization plan).

-- In contrast, the summary describes raising the cap on taxable earnings to require wealthy Americans to pay their fair share of payroll taxes, generally the most popular Social Security reform in public opinion research, as a change that would cause "profound economic damage."

* Suggests that Congress Will Not Honor the Treasury Bonds in the Social Security Trust Fund. The summary says that

the \$2.6 trillion in reserves generated by worker contributions to the Social Security Trust Fund "are derived from dubious government accounting," implying that the Republican Congress might not redeem the Treasury bonds in the Trust Fund when they are needed to pay benefits that are owed. (Budget Committee Summary, p. 48)

General Facts On Social Security

Demographics of Social Security beneficiaries

* 54 million people depend on Social Security:

-- 35 million retirees,

-- 8 million disabled beneficiaries,

-- 11 million children, widows, and others.

Essential Source of Retirement Income

* For more than half (55%) of elderly beneficiaries, Social Security provides the majority of their cash income. For one-quarter (26%), it provides nearly all (more than 90%) of their income.

* For 15% of elderly beneficiaries, Social Security is the sole source of retirement income.

* Without Social Security, nearly one out of every two seniors would be living in poverty.

Amount of Benefits

* Social Security benefits are not very generous. In 2010, the average benefit was \$14,000 a year.

Full Solvency until 2037

* Social Security is fully solvent until 2037 and even after 2037, could pay 75% of scheduled benefits out of its trust fund.

No effect on the deficit

* Social Security does not contribute to the deficit.

-- Social Security is a self-financed program. It is funded directly by payroll contributions that are used to purchase interest-earning government bonds.

-- Any income that is not needed immediately to pay benefits is held in a trust fund that can only be used to pay for Social Security benefits. Social Security cannot borrow funds from any other source.

Revenues and expenditures

* The Social Security Trust Fund has a current balance of \$2.6 trillion.

-- Since 1937, when it was created, Social Security has collected a total of \$14.6 trillion.

-- Over that same time period, Social Security has spent \$12 trillion.